

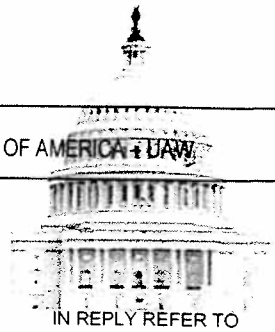


INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA - UAW

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June 11, 2007

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Dear Representative/Senator:

The United States Trade Representative (USTR) has belatedly released the text of the proposed U.S.-Korea free trade agreement (KORUS FTA). A review of this text confirms that the auto provisions are a bad deal for the United States, and would worsen our already lopsided auto trade deficit with Korea.

The auto provisions in KORUS would eliminate U.S. tariffs on Korean imports. But they would allow Korea to continue a variety of non-tariff barriers in order to keep their market closed to U.S.-built automotive products. This includes discriminatory vehicle taxes based on engine size, discriminatory insurance requirements, and safety and other technical standards that have a disparate impact on foreign vehicles.

The special auto dispute resolution provisions would not provide any meaningful remedy for U.S. auto companies and their workers. The burden of proof is structured in a manner that makes it unlikely the U.S. could ever prevail in a case against Korean non-tariff barriers. And even if we should prevail, the remedy is toothless because the so-called tariff "snap back" does not apply to the major U.S. automotive tariff, our 25% tariff on imported pickup trucks.

Attached for your information are two fact sheets that provide a summary and detailed analysis of the provisions in the KORUS FTA dealing with discriminatory taxes and other non-tariff barriers, as well as the special auto dispute resolution process and tariff snap back remedy. These materials demonstrate why the auto provisions in the KORUS FTA would exacerbate our auto trade deficit with Korea.

This has been confirmed by the Korean government, which has publicly stated that it projects the KORUS FTA will increase Korea's auto trade surplus with the U.S. by \$1 billion annually, with Korean companies beginning to export pickup trucks to the United States.

For the foregoing reasons, the UAW is continuing to vigorously oppose the proposed U.S.-Korea free trade agreement. We urge you to vote against this unfair, one-sided trade deal when it is presented to Congress.

Sincerely,

A handwritten signature in black ink that reads "Alan Reuther". The signature is written in a cursive, flowing style.

Alan Reuther
Legislative Director

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**U.S.-KOREA FREE TRADE AGREEMENT (KORUS FTA)
ALLOWS KOREA TO MAINTAIN NON-TARIFF BARRIERS (NTBs)
TO KEEP ITS AUTO MARKET CLOSED TO AMERICAN PRODUCERS**

In the "2006 National Trade Estimate Report on Foreign Trade Barriers," USTR expressed concern that Korea's system of auto taxes discriminated against imported vehicles, that commitments contained in the 1995 and 1998 Memorandum of Understanding (MOUs) had not been met, and that the Korean auto market remained essentially closed to U.S. produced automotive products.

Unfortunately, the proposed KORUS FTA does not adequately address these concerns. It would allow Korea to maintain a discriminatory tax structure and other non-tariff barriers, which will keep the Korean market closed to U.S. built automotive products and perpetuate our enormous auto trade imbalance. Specifically, the proposed KORUS FTA:

- Does not require Korea to eliminate all current non-tariff barriers, nor does it establish effective and enforceable mechanisms for addressing future non-tariff barriers.
- Allows Korea to continue to discriminate against vehicles with larger engines in its "Special Consumption Tax," "Annual Vehicle Tax," and "Subway Bond Tax." Because U.S.-built vehicles tend to have larger engines, the continuation of these discriminatory taxes will operate as a barrier to sales of our vehicles in Korea.
- Does not contain effective provisions to prevent Korean tax authorities from continuing to demand personal customer information from dealerships selling imported autos. When this happened a year ago, it had an obvious "chilling" effect on Korean consumers' purchases of imported cars.
- Allows Korea to continue its practice of arbitrarily placing imported vehicles in "high-risk" insurance classifications, another strong disincentive against the purchase of imported autos by Korean consumers.
- Does not effectively end the Korean government's ongoing efforts to use automotive safety and other technical standards as tools to discriminate against imported automotive products. Korea is not required to accept U.S. or international safety standards or "parallel regulatory structures" that use "averages." Instead, it can continue to require all vehicles to meet its safety and other technical standards, thereby imposing significantly heavier burdens on low-volume importers.
- Does not give the "Automotive Working Group" any enforcement powers to address non-tariff barriers that may arise in the future. Instead, this is simply an advisory group that can only present its views to government.

- Does not allow non-governmental parties, such as the auto companies or the UAW, to participate in the "special" automotive dispute resolution process.
- Makes it extremely difficult for the U.S. to prevail in this dispute resolution procedure by imposing a very high burden of proof. To prevail, it would not be sufficient to show that U.S. automotive products were still being kept out of the Korean market. Instead, the U.S. would have the burden of establishing that this was attributable to "non-conformity" with Korea's obligations under the agreement, and that our auto manufacturers have been "injured" by these practices. Given the vagueness and numerous loopholes in Korea's commitments, and their ability to allege that sales of U.S. built vehicles are being affected by other factors, it is doubtful the U.S. could ever prevail in this dispute resolution procedure.
- Fails to provide adequate relief to U.S. auto companies and their workers, even if the U.S. is able to prevail in a case under this special dispute resolution procedure. The only relief is that we would be allowed to reinstate our former 2.5% auto tariff. Significantly, the "snap back" provision does not apply to the much more important 25% pickup truck tariff. Thus, the tariff "snap back" is largely a toothless remedy. Furthermore, similar provisions in other trade agreements have rarely been used and never in the case of such an economically significant commodity as autos. Equally important, this remedy is ill-equipped to address the longstanding problem of Korea using a variety of tariff and non-tariff barriers to keep its market closed to U.S. automotive products. If, as expected, Korea continues to use similar tactics to keep its market closed, simply re-imposing U.S. tariffs at pre-FTA levels will do nothing to redress the damage already inflicted on American automotive companies and their workers.

For the foregoing reasons, it is apparent that the proposed KORUS FTA does not adequately address the problem of Korea continuing to use discriminatory tax and other non-tariff barriers to keep its market closed to U.S. built automotive products. Because the agreement requires the U.S. to eliminate its automotive tariffs, the net result is likely to be a surge in automotive imports from Korea and a worsening of our auto trade deficit with Korea. Indeed, the Korean government has announced that it expects Korea's automotive surplus with the U.S. to grow by \$1 billion per year as a result of this trade deal. This will translate into the loss of tens of thousands of additional automotive jobs for American workers.

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U.S.-KOREA FREE TRADE AGREEMENT WILL WORSEN AUTOMOTIVE TRADE IMBALANCE

The proposed U.S.-Korea Free Trade Agreement (KORUS FTA) does not require Korea to open its protected auto market to American producers in order to gain greater access to the U.S. auto market. Korea is the fifth largest producer and third largest exporter of vehicles in the world. In the past, Korea has used a variety of tariff and non-tariff barriers to keep its market closed and to maintain an enormous and growing auto trade imbalance with the United States.

While the USTR touts the so-called "snap back" provision as a remedy for Korea's continued use of unfair trade practices, it can not be applied to the 25% light truck tariff, and would unlikely be invoked in the case of autos in any event.

In 2006, Korea exported almost 700,000 vehicles to the United States, while the U.S. exported about 5,000 vehicles to Korea. As a result, the U.S. had an \$11.6 billion automotive trade deficit with Korea. This was 87% of the overall \$13.4 billion U.S. trade deficit with Korea.

The UAW believes the KORUS FTA will exacerbate our existing auto trade deficit with Korea, and jeopardize tens of thousands of additional American automotive jobs.

Automotive Tariffs

Under the KORUS FTA, the U.S. will immediately eliminate its 2.5% tariff on the vast majority of Korean-produced vehicles and auto parts. The 2.5% tariff on autos over 3000 cc's will be phased out over three years, and the 25% U.S. tariff on light trucks will be phased out over 10 years. Korea will immediately eliminate its 8% tariff on autos and its 10% tariff on trucks.

UAW submits that the reductions in the U.S. tariffs will trigger a surge in automotive imports from Korea. It will be relatively easy for Korean automakers to ramp up production for export to the U.S. **In fact, the government of Korea has stated that it expects the proposed FTA to generate a \$1 billion annual increase in its auto trade surplus with the U.S.** Immediately following the announcement of the trade deal, Hyundai announced plans to study the export of pick up trucks to the U.S.

At the same time, the KORUS FTA does not contain any guarantees or mechanisms for the U.S. to gain substantially greater access to the Korean auto market. In particular, the trade deal does not contain the provisions set forth in the bi-partisan Congressional auto proposal that was sent to President Bush in March, which would have required Korea to open its market to U.S.-built automotive products before it could receive the benefit of reductions in U.S.

automotive tariffs. The trade deal also ignores the provision in this bi-partisan Congressional auto proposal stipulating that the U.S. tariff on imported pickup trucks should be left for resolution through multilateral WTO negotiations. Instead, as explained below, the KORUS-FTA allows Korea to continue the discriminatory taxes and other non-tariff barriers that it has used to keep its market closed to U.S. built automotive products.

Discriminatory Taxes

In the "2006 National Trade Estimate Report on Foreign Trade Barriers," USTR stated: "The United States has also expressed concern that Korea's current system of auto taxes discriminates against the larger vehicles that exporters tend to sell in the Korean market. Noting the MOU commitment to restructure and simplify the automotive tax regime in a manner that enhances market access for imported vehicles, the U.S. government has urged the Korean government to lower the overall tax burden, reduce the number of taxes assessed on vehicles, and move away from engine-displacement taxes towards a value-based system."

Unfortunately, the KORUS FTA does not adequately address USTR's own stated concerns. While Korea agreed to modify three of its eight different taxes on autos, they remain based on engine displacement. In addition, the enforcement language in the FTA is no stronger than the 1995 and 1998 Memorandum of Understanding (MOUs) which, the USTR acknowledges, failed to open the Korean auto market. Korea will be able to maintain a discriminatory tax structure disadvantageous to U.S. produced autos:

The KORUS FTA requires Korea to modify its "Special Consumption Tax," but allows for the continuation of discrimination between engines smaller than 1000 cc's and those that are larger. In the first three years of the FTA, engines between 1000 cc's and 2000 cc's (the majority of Korean produced cars) will be subject to taxes of no greater than 5%. Engines larger than 2000 cc's (the majority of U.S. produced vehicles) will face taxes of no more than 8%. While all engines larger than 1000 cc's will be taxed a single rate of no more than 5% after three years, those smaller than 1000 cc's will continue to be subject to a lower tax rate.

Although the KORUS FTA slightly modifies Korea's "Annual Vehicle Tax," the trade deal allows Korea to impose higher taxes on vehicles with larger engines. This discriminates against U.S. built vehicles because they tend to have bigger engines. Specifically, an auto with an engine of 1000 cc's or less will be taxed at no more than 8 won per cc; an auto between 1000 and 1600 cc's (mostly Korean autos) will be taxed at no more than 140 won per cc; and autos with engines larger than 1600 cc's (mostly U.S. autos) will be taxed at no more than 200 won per cc.

Although the KORUS FTA discourages any increased discrimination based on engine size in Korea's "Subway Bond Tax," it does not eliminate the existing tax

structure, nor does it prevent the adoption of a different, but similarly discriminatory structure for this tax. Korea promises to publicize the availability of a partial refund of this tax for purchasers of new automobiles, but this would not mitigate the adverse effect on the sale of U.S. produced autos.

Approximately one year ago, it was widely reported in the Korean press that Korean tax authorities were demanding personal customer information from imported automobile dealerships. This had an obvious "chilling" effect on Korean consumer purchases of imported cars. The government's retraction of this policy received little media attention, and came too late to undo the damage done to imported auto sales.

Other Non-Tariff Barriers (NTBs)

The immediate elimination of automotive tariffs will not negate the cumulative effects of years of unfair non-tariff barriers that have kept the Korean market closed to U.S. built automotive products. The non-tariff barriers provisions in the KORUS FTA are essentially identical to those contained in the Memorandums of Understanding (MOUs) reached with Korea in 1995 and 1998, which were a complete failure in opening the Korean auto market. Korea simply promoted alternative non-tariff barriers following those agreements to successfully keep its market closed to U.S. built automotive products.

In a side letter to the KORUS FTA, Korea agreed to delay the application of selected non-tariff barriers and to allow limited volume exemptions for others. But the agreement does **not** require Korea to eliminate all current non-tariff barriers, nor does it establish effective and enforceable mechanisms for addressing future non-tariff trade barriers.

For example, the KORUS FTA does not prevent Korea from continuing the practice of arbitrarily placing imported vehicles in "high-risk" insurance classifications.

The UAW also is concerned that the KORUS FTA will not effectively end the Korean government's ongoing efforts to use automotive safety, emission and other technical standards as a tool to discriminate against imported automotive products. Such standards are, by definition, subject to continual revision and modification. Although Korea stated in a side letter that it will allow U.S. built vehicles to be imported if they meet California's emissions standards, nothing in the trade agreement prevents Korea from continuing to introduce new safety or other technical automotive standards each year. Low-volume importers such as the U.S. auto companies will continue to have difficulty meeting these new expensive and uniquely Korean regulations, because the cost of these design changes would have to be spread over fewer vehicles. Significantly, the KORUS FTA does not require Korea to accept U.S. or international safety standards. Nor is Korea required to accept "parallel regulatory structures" that use "averages."

Instead, it can continue to require all vehicles to meet its safety and other technical standards, thereby imposing significantly heavier burdens on imports.

While the 1995 and 1998 MOUs required Korea to accept U.S. and international standards related to on-board diagnostics, the KORUS FTA allows Korea to impose "equivalent Korean standards" on U.S. automotive products. Thus, the KORUS FTA actually represents a step backwards from the failed MOUs of 1995 and 1998.

The KORUS FTA creates an "Automotive Working Group" to address regulatory issues and other non-tariff barriers that may arise in the future. However, the working group has no real enforcement power to address such barriers, but only to provide its views to government in order to "promote good regulatory practices." The trade agreement also contains a "promise" by Korea that it is not governmental policy to discourage the purchase or use of U.S. automotive goods. But there is no effective mechanism to ensure compliance with this "promise."

Dispute Resolution and "Snapback"

USTR touts the dispute resolution provisions of the KORUS FTA as containing "an innovative process for settling disputes on auto-related measures." But the FTA would do little more than expedite slightly the usual joint committee review and arbitration process. The dispute panel consists of only governmental representatives that may or may not have sufficient automotive knowledge and experience. The special dispute resolution procedures do not allow for participation by non-governmental parties, including unions.

It will be extremely difficult for the U.S. to get any meaningful relief under this dispute resolution procedure. To prevail, it would not be enough for the U.S. to show that the existence of non tariff barriers that are still keeping our automotive products out of the Korean market. Instead, we would have the burden of proving "non-conformity" with Korea's obligations under the agreement. Given the vague and weak provisions in the KORUS FTA, this would be difficult to establish.

In addition, under the special dispute resolution procedures the U.S. would be required to demonstrate that our automotive producers have suffered "injury." This also will be a difficult hurdle to overcome. Korea can always allege that there are other factors that are keeping down sales of U.S. built automotive products.

In light of Korea's long history of using non-tariff barriers to keep its market closed to automotive imports, the UAW submits that it is unfair to impose these burdens of proof on U.S. automotive producers. Instead, it should be enough simply to demonstrate that our products are being kept out of the Korean market.

The burden should then be on the Korean government to prove that its discriminatory taxes and other non tariff barriers are not responsible for keeping out our products.

It is also important to recognize that, even if an arbitration panel should rule in favor of the U.S. under this dispute resolution procedure, the only relief that is provided is that we would be allowed to reinstate (i.e., "snap back") our former 2.5% tariff on autos. **However, the snap back provision does not apply to the 25% pickup truck tariff.** Thus, the remedy provided by the tariff "snap back" provision is largely toothless, since it does not apply to the most important U.S. tariff concession. Furthermore, the "snap back" provisions of other trade agreements have rarely been used and never in the case of such an economically significant commodity as autos. Given the importance of autos in the Korea-U.S. trading relationship, the use of the snap back provision would have huge economic implications and the political pressure to avoid its implementation would be enormous.

In addition, the remedy provided under the "snapback provision" is ill-equipped to address the longstanding problem of Korea using a variety of tariff and non-tariff barriers to keep its market closed to U.S. automotive producers. If, as expected, Korea continues to use the same tactics to keep its automotive market closed, re-imposing U.S. tariffs at pre-FTA levels will do nothing to redress the damage already inflicted on American automotive companies and their workers.

The provisions of the KORUS FTA are less than clear on the duration of the so-called auto safeguards. While the FTA does state that safeguards will not expire if the panel has found that a party has failed to conform to its obligations under the agreement, it does not explain whether such a finding merely extends the effective life of the safeguards or converts them into a permanent ones.

Conclusion

For the foregoing reasons, the UAW believes the KORUS FTA will exacerbate our automotive trade deficit with Korea. The elimination of U.S. automotive tariffs will lead to a surge in imports from Korea and jeopardize tens of thousands of American automotive jobs. At the same time, the agreement allows Korea to maintain discriminatory taxes and other non tariff barriers to keep its market closed to U.S. built automotive products. The dispute resolution and "snap back" provisions will not provide any meaningful relief for these continuing unfair trade practices and our growing automotive trade imbalance.

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